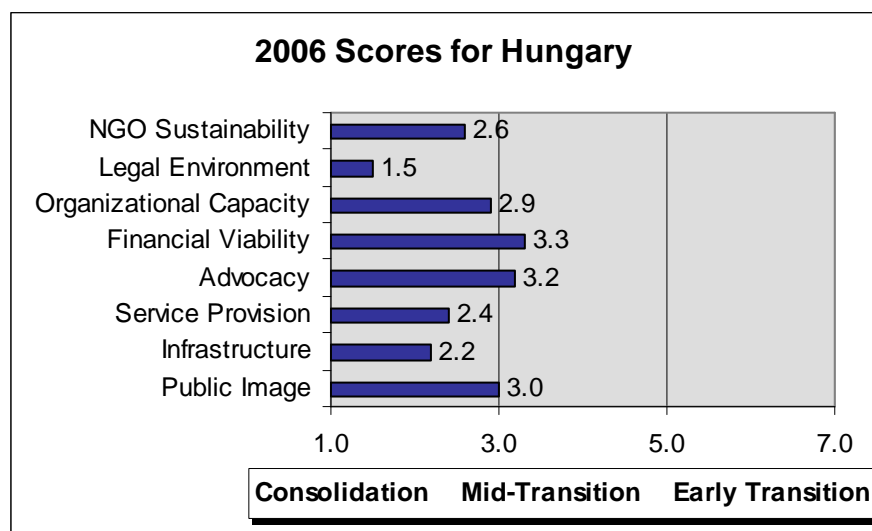


Hungary



Capital: Budapest

Polity: Parliamentary democracy

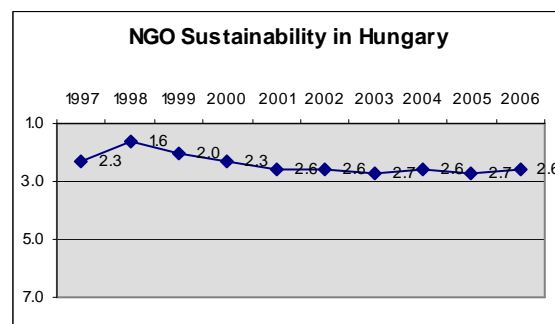
Population:
9,981,334

**GDP per capita
(PPP):** \$17,300

NGO SUSTAINABILITY: 2.6

The year 2006 witnessed a continuing trend of confusion over the role of civil society in political life, a trend that was compounded by the fact that elections were held in 2006. NGOs and civil society groups are increasingly seen as vehicles for fulfilling political ambitions. The riots in the fall – following the release of a recording in which the Prime Minister acknowledged that the government had lied to the people – shed light on significant deficiencies present in the fledgling Hungarian democracy. Above all, they showed that civil society is still weak when it comes to organizing peaceful demonstrations in defense of democratic principles. The rioters turned violent, and those who disagreed with the violence did not take a stand. The events of the autumn also revealed flaws with the constitutional rights legislation put in place 15 years ago. These flaws were apparent in the problems in the interpretation of the right to assembly and freedom of expression and the limitations of use of force by the police. For example, it is possible to occupy public space for weeks and months under the freedom of assembly legislation, but there is disagreement

over when and how authorities may limit freedom of assembly. Despite the freedom of assembly law, police have now banned demonstrations in front of the Parliament. Because the specific exception permitted in the law for limiting freedom of assembly (that traffic cannot be ensured on an alternate route) was not applicable, the police declared that the space in question is an area of police operations, and it has remained as such for six months, until March 2007. The protests and riots have also raised questions about which measures can be used by the authorities to disperse crowds.



The government is proposing a new approach towards civil society by prescribing broad principles for the engagement of NGOs in the work of government ministries, rather than a set of specific actions. That is, the government has now elaborated only a framework for action for the ministries, and it is up to each ministry to determine the specific actions. In the previous strategy, the government had included concrete actions in its plans and had assigned responsibility for those actions to various ministries. For example, the previous government strategy for cooperation with NGOs included plans for courses on the nonprofit sector to be introduced into higher education curricula. In the new “principles” for cooperation, the government instead makes a more general statement that “more human resources need to be available for the field.” The Ministry of Education will then determine how best to do that and will include these activities in their (mandatory) action plan. In addition, the Ministry of Labor may also include something about this objective in its own (mandatory) action plan.

While this new approach was welcome, central government faced criticism due to the lack of sufficient civil society involvement in the elaboration of the National Development Plan for 2007-2013. This plan is very important for Hungary because EU funding decisions will be based on it. Unfortunately, as noted, this approach has not yet been formally approved.

Apart from the disruptive political developments, civil society organizations have generally made strides in the past year, particularly in terms of the availability of funding for their programs. In 2006, EU Structural Funds were finally released, the National Civil Fund improved its procedures, and NGOs benefited from a slight increase in the amount of percentage charitable designations from income taxes. At the same time, more and more NGOs are realizing that government funding should not be their major source of income and are becoming interested in undertaking income-generating and fundraising activities. In fact, the income generating activities of NGOs have grown significantly over the past few years.

LEGAL ENVIRONMENT: 1.5

In 2006, the newly elected government reviewed its civil society strategy. The major conceptual change in the new draft document is that at the governmental level there are “guiding principles” (rather than an actual strategy laid out) and these principles, among other things, require the individual ministries to develop their own strategies towards civil society and NGOs. The principles were adopted in February 2007.

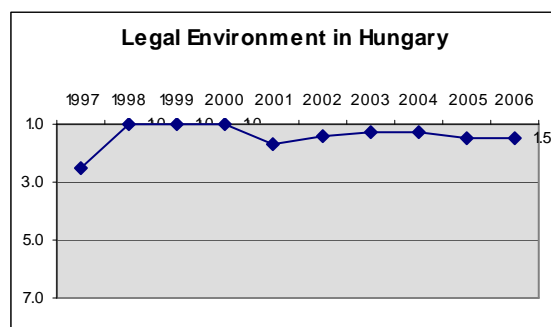
During the year Hungarian NGOs focused their efforts on promoting the proper implementation of recently adopted laws. For example, the Law on Freedom of Electronic Information required that as of January 2006 all ministries publish on their webpage documents that were considered to be “public interest data,” including drafts of program concepts, strategies, policies and laws. The Environmental Management and Law Association (EMLA)

created and is maintaining a website that monitors the extent to which the ministries comply with that requirement. As of their November 2006 report, only five ministries had fully complied with the law but progress could be seen in other ministries as well over the year.

By October 2006, about 500 public benefit organizations registered under the Law on Public Interest Volunteering, adopted in June 2005. These organizations are now eligible to obtain tax benefits on any expenses connected with organizing volunteer activities. The Volunteer Center compiled two publications on the implementation of the law (one for the volunteers and one for the NGOs).

The State Audit Office prepared a Report on the National Civil Fund (NCF) and pointed out several deficiencies in the implementation of the

law. These included inappropriate determination of distribution principles, lack of performance criteria relating to grants, lengthy procedures, and grantee problems with the financial reporting and accounting requirements. Grantees were not fulfilling reporting requirements but the NCF accepted their reports nevertheless, which resulted in non-compliance of the NCF with State Budget laws. As a result, the State Audit Office questioned whether the NCF has been achieving its objectives in the past two years and made several recommendations, including amendments to the Law on the National Civil Fund.

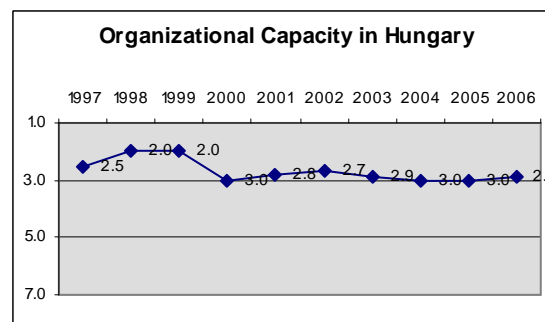


According to the new Company Code, adopted in early 2006, the legal form of a public benefit company will be discontinued and will be replaced with the “nonprofit company.” A nonprofit company can take any legal form prescribed in the company law (e.g., a limited partnership, a limited liability company or even a joint stock company). It will be eligible to apply for public benefit status as well. These changes will take effect in 2007.

A minor but important legal change that concerns NGOs establishes an income ceiling, beyond which taxpayers cannot claim deductions, including for charitable donations. The ceiling for 2006 was 6 million HUF (\$30,000). In addition, following amendment of the 1% Law, universities and other higher education institutions will become eligible recipients for charitable contributions.

ORGANIZATIONAL CAPACITY: 2.9

In the past year the organizational capacities of NGOs improved slightly, especially in those which received funding from the EU Structural Funds. After more than a year of delay, these funds were finally available for investing in service and infrastructure development. Over the past year several leading NGOs, both national and local, completed a strategic planning process (as a result of the Trust for Civil Society program) that led to serious changes in their organizations. Another encouraging sign of growing maturation is that several organizations reported increased interest on part of university students and young professionals in working in the sector. The big question now is not whether qualified young people can be attracted to the sector but whether they can be retained and provided with good career opportunities.



The biggest setback in this area is that it is increasingly difficult for NGOs to pay the salaries of full-time staff, given that personnel costs have continued to rise. Employer costs increased unexpectedly in the middle of the year when the government introduced its new restrictive package, which includes increases in payroll taxes, cuts in government spending, and related restrictive economic measures. Less than one third of those employed full time in

the nonprofit sector are employed by private non-governmental foundations and associations; the balance are for government or local government sponsored quasi-NGOs.

Another anomalous aspect of this situation is the growing gap between relatively stable organizations with sizeable budgets and smaller, more precarious groups. Over 60% of all nonprofit sector revenue flows to Budapest-based NGOs, which do of course redistribute

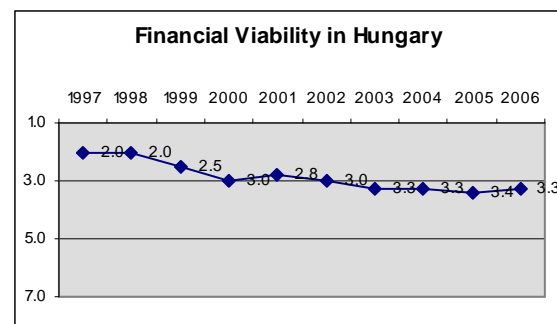
much of that funding to the countryside. Sixty-six percent of NGOs have annual budgets of less than \$20,000 and have no paid employees. Within this group, many function on even less money; over 44% of NGOs have annual budgets under \$5,000. The State Audit Report on the national Civil Fund (NCF) states that NCF funding has not enabled NGOs to grow because its funding level for any given NGO is based on previous funding levels.

FINANCIAL VIABILITY: 3.3

In 2006, EU Structural Funds project funds were finally released, making it the first year in which NGOs could gain access to a significant amount of EU funding in Hungary. Funding from the National Civil Fund (NCF) for operational costs has also become more predictable and less bureaucratic, thereby easing access to these grants for NGOs. In 2006, the revenue from 1% tax designations (in which taxpayers can choose to designate 1% of their personal income tax payment to go to a qualifying NGO rather than the government) slightly increased. The designations provided about \$37 million to more than 25,000 NGOs. In addition, the NCF concluded an agreement with the other major source of support, the National Employment Fund (NEF), to coordinate their support to NGOs. This means that if an NGO wins a project with the NEF, it is entitled to receive operational support from the NCF.

Overall, however, the tendency of a decreasing level of state funding continued, as there were cuts in the level of service delivery support (or per capita fees paid to NGOs to deliver services for the government) as well as in the ministry budgets for specific NGOs. The recently introduced government restriction package will also negatively affect state financing. The new Norwegian Fund Mechanism, another major NGO support fund, has suffered delays

and therefore is not yet operational, although the first round of calls for proposals has been completed. The Norwegian grants procedure received much criticism from NGOs for being more bureaucratic and complex than the EU funding mechanisms.



NGOs are becoming more and more aware of the need to diversify their funding and to rely more on local and sustainable sources. For example, associations increased their funding from economic activities by almost 15% since 2000. In addition, there is clear demand towards professionalizing fundraising activities. The First Hungarian Fundraising Conference organized by the Civil Society Development Foundation Hungary attracted over 200 paying participants in the fall of 2006.

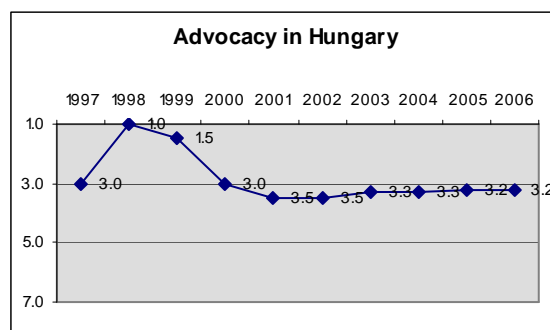
ADVOCACY: 3.2

The elections and the riots in the autumn of 2006 shed light on an important deficiency of

Hungarian democracy, namely the confusion between the role of civil society and that of

political parties. Hungarian law does allow civic associations to provide candidates for political office. It only bars public benefit organizations from putting forward candidates.

During the elections, one MP was elected to Parliament as the candidate of a county association (that is, an association whose mission is to promote the development of one of the 19 counties in Hungary, similar to a community development NGO). As the only non-party MP, he received substantial publicity and claimed that he was “representing civil society.”



In addition, a number of new civil society groups have been formed by the right-wing radical demonstrators who were at the heart of the Budapest riots in the autumn. These were formed to support the demonstrators in their effort to throw out the government; officially their aims included nationalistic slogans, like re-uniting the culture of the Hungarian nation. Though FIDESZ (the biggest opposition political party) denies having connections with these radical groups, the public sees them as part of the right-wing opposition led by FIDESZ.

In addition, some high-profile NGOs are essentially seen as political actors. For example, the NGO which nominated the new President of Hungary in the previous year has remained very visible. It actively engages in advocacy and lobbying; however, its mission is quite broad and vague (“sustainable development”), and it speaks up on every aspect of governance, almost acting as a political party, in that it takes an ideological stance on many issues, rather than having a clear issue focus. For example, it

speaks on issues concerning the environment, energy, public transport, city planning, construction, human rights, the use of the EU funds, and so on. In fact, some of the founders formed a party for the 2006 elections but did not reach the needed number of supporters or candidates. When the party was formed the members clearly stated that the NGO would remain a civic organization. Nevertheless, since the elections there is little heard about the party, while the same people remain active in the NGO.

These and similar events led to a blurring of the role of civil society in Hungary. Groups are perceived as being used as political tools (see also the section on NGO image), and public advocacy is being confused with the expression of political ambitions.

The over-politicized atmosphere also revealed the problems of some major NGOs in establishing internal democracy. For example, one of the largest membership organizations in the country organized a demonstration against government reform in taxes and budget spending based on a decision by its governing board without any consultation with members, many of whom were uncomfortable taking a political stance regarding the new restrictions.

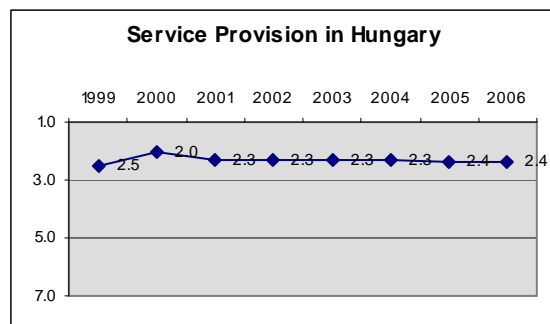
There were a few important attempts at real advocacy, though typically these did not reach the public. For example, the Hungarian Civil Liberties Union sued the Ministry of Justice when the latter failed to provide access to the draft of the new constitution, in violation of the Law on Freedom of Electronic Information. HCLU won the case at first instance. HCLU is in this case engaging in strategic litigation as an important tool in advocacy. This case was but one of several the organization undertook in the recent years to ensure application of civil liberties in Hungary. The court case was accompanied by a media campaign, petition writing campaign, etc. The coalition of the Civil Organizations for the Openness of the National Development Plan Process (CNNy) continued its work to ensure proper participation in the elaboration of the Operational Plans for the

2007-2013 period, with some success. The Helping Hand Foundation organized an impressive project called “I am going to the Minister”, in which people with learning

disabilities met ministers, MPs and other decision-makers and personally explained to them their problems.

SERVICE PROVISION: 2.4

Given that the EU funds have finally started to flow, there has been an increased interest and activity by NGOs in providing services. However, government budget cuts for the provision of NGO services made it a difficult year for many organizations. Due to these cuts, all ministries were ordered to decrease their spending, and one of the areas most affected was NGO support. In addition, the government also decreased the amount of the per capita support NGOs receive per service user when an NGO provides a government service. One general phenomenon that could be observed in past years is that NGO service provision tends to concentrate on the areas where government funding is available. For example, there seems to be a disproportionately high number of services provided in employment (job search training, job placement exchange, rehabilitation, vocational training, reintegration into labor force, etc.). Undoubtedly this is driven by government programs and raises concern over whether NGO services meet real social needs or are just passively following government priorities.



NGOs also report that the monitoring activities of government programs (including those on employment but also others primarily funded through the EU Structural Funds) are usually confined to financial and procedural aspects rather than outcome and impact measurements. At the same time NGOs increasingly apply or strive to introduce quality assurance systems; this change signals an improvement in accountability in the sector.

The fact that associations increased their revenue from economic activities also reflects an outreach in service provision – they have finally started to charge a fee to their members and clients for services they used to provide for free.

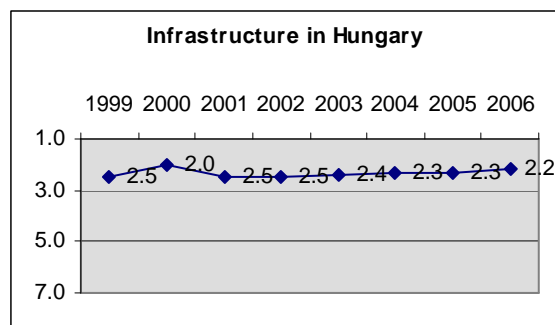
The government proposed a draft law on public services contracts. The draft law does not consider NGOs specifically, thereby putting them on equal playing field with for-profit companies in bidding on and obtaining contracts for service provision. There are also interpretation issues with the text, for example it seems to provide only for contracting out a whole service as defined in the laws concerning government tasks (e.g., the maintenance of a public park or the maintenance of a homeless shelter). It remains to be seen what this means if and when a local government wants to contract out only a part of the service (e.g., cleaning the parks or psychosocial care in the shelter). The discussion of the draft is continuing.

INFRASTRUCTURE: 2.2

The NGO training market received a boost from EU Structural Funds (SF) and the NCF money. There are adequate funds available for training. For-profit training companies also

entered the market, given that NGOs which received SF projects are able to pay for training. Therefore, interested NGOs can now register for government- funded support center training

for no charge, or workshops provided by private companies at a cost of \$1000–1500 per day. In part due to this market boom, demand for qualified trainers is increasing.



By 2006, at least six to eight parallel infrastructure networks were developed by various ministries; all of these are supposed to provide the same kinds of services to an overlapping circle of NGOs and other local actors (e.g., small entrepreneurs, schools, social service institutions etc.). These networks include Mobilitas centers (youth support network), Equal Opportunities Centers, NGO support centers, Labor Support Centers, etc., with most operating on the same regional level. The new government strategy suggests merging these networks. The strategy envisions tendering of this training function in the regions and providing delivery-based financing to the providers. While the streamlining is a welcome idea, the new arrangement may affect local

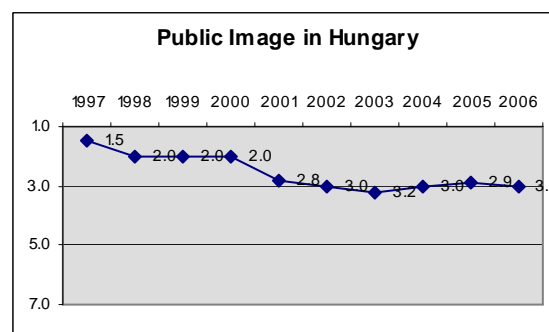
support centers in such a way that they become government policy implementers and are less responsive to local NGO needs.

In fact, most of the county level NGO support centers (part of the government established CISZOK network) diverged from their original missions when they undertook EU regional development or employment programs. Individual centers vary widely in the level and quality of their services. There are refreshing exceptions as well, including a couple of local support centers that emerged in response to local needs that were not being met by the national networks.

The Hungarian Donors Forum (HDF) was incorporated in 2006 after several years of planning. This is a big step forward in developing a support infrastructure and interest representation for Hungarian grant-making foundations. HDF engaged in a joint project of the CEENERGI – network (Central and Eastern European Network for Responsible Giving), establishing a corporate social responsibility (CSR) award based on international standards in Hungary. On that note, there is an increasing number of conferences, events, trainings and even awards related to CSR in Hungary. For-profit CSR consultant companies are eager to create demand for this emerging trend.

PUBLIC IMAGE: 3.0

This trend in politicizing the NGO sector continued in 2006. As described in the section on Advocacy, Hungarian media and the public have come to see NGOs as political actors; civil society is seen as a potential tool for gaining power. The other main image that is communicated about NGOs is a non-political “charitable” image (helping the poor, giving food and shelter, etc.). This image is a positive one, but it is also very traditional and paternalistic; it makes an underlying assumption that these kinds of charitable activities are needed only because the state cannot take care of its citizens.



Undoubtedly the fact that it was election year contributed to this distorted view of civil

society. Due to the election campaign, campaigns promoting donations to NGOs through the 1% income tax designation were less visible this year to the average citizen (the timing of these two coincided in the spring). Although the amount of the percentage designations grew, this did not mean that many more citizens designated but rather that the taxes have increased since last year.

There were also some very visible campaigns in which NGOs participated, such as the “Cow Parade,” an open-air show that aims to promote arts education around the world. Another high-profile citizen initiative launched in 2006 is the Budapest Olympics Movement; this aims to gain public support for bringing the Olympic Games to Budapest in the next decade.

According to the Media Monitor of Okotars Foundation, over the period April– September 2006, NGOs were covered in the media less frequently; the number of media appearances decreased by 14% compared to the previous period (October 2006 – March 2007). While public media reported on civil society issues more often, some civic issues generated significant media response in the commercial media, which reach a wider audience and cover issues over a longer period of time. For example, the controversies surrounding two development projects challenged by civil society groups for environmental reasons—the “Hajógyári-sziget” (“Dream-Island Investment”) building project and the M0 ring road project—were massively represented by the commercial media. Therefore NGOs have learned that it is possible to mobilize the commercial media and that it is worthwhile if they want to reach a larger audience.